RAJYA SABHA

Thuesday, the 23rd April, 1987/3 Vaisakha 1909 (Saka)

The House met at eleven of the clock, **Mr. Chairman** in the Chair.

ORAL ANSWERS TO QUESTIONS

Steep fall in the Value of the Rupee

*121. SHRI PARVATHANENI UPENDRA: Will the PRIME MINISTER be pleased to state:

(a) whether it is a fact that the Indian Rupee had registered a steep fall against the major international currencies during 1986;

(b) if so, the extent of the slump of the Indian Rupee against the major international currencies during 1986 and the reasons therefor; and

(c) whether any remedial measures are being taken by Government to strengthen the Indian Rupee?

THE MINISTER OF STATE OF THE MINISTRY OF PETROLEUM AND NATURAL GAS AND THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BRAHM DUTT): (a) to (c) A statement is laid on the Table of the House.

Statement

The exchange value of rupee *vis-a-vis* other major international currencies as at the beginning of 1986 and 1987 was as indicated below:

Rupee exchange rates vis-a-vis *Foreign currency*

(*Rs. Per unit of foreign currency*)

		1986	1987
1	£. Stg.	17·50	19·35
2	US $	12·04	13·0039
3	Deutsche Mark	4·9334	6·7659
4	Japanese Yen 100=Rs	6·02	8·22
5	French Franc	1·6·63	2·0490
6	Swiss Franc	5·8·57	8·1139

The exchange rate of the rupee is fixed with reference to the value of a basket of currencies, mainly of countries which are India's major trading partners. The exchange rates between rupee and other currencies move upward or downward depending upon the fluctuations in the value of these currencies. In a regime of floating exchange rates, such frequent variations in exchange value of rupee are not unusual.

SHRI PARVATHANENI UPENDRA: The Minister's statement indicates that the exchange value of rupee *vis-a-vis* all major international currencies has fallen down considerably during 1986. The rupee registered an alround fall against the major international currencies. The RBI cumulatively devalued the rupee by 9.69 per cent during the year through 156 parity revisions, that is, 94 devaluations to the extent of 42.69 per cent and 62 upvaluations to the extent of 33 per cent. This devaluation of rupee by RBI could have been avoided if the rupee is not linked with the basket of currencies and valued in terms of pound sterling only. Will the hon. Minister agree with this assessment?

SHRI BRAHM DUTT: I do not agree in view of the historical evolution of the process. The historical evolution of the process is that the exchange rate of the rupee is fixed with reference to the value of a basket of currencies, mainly of countries which are India's major trading partners. We are not adversely affected by it.

SHRI PARVATHANENI UPENDRA: In view of the volatile climate prevailing in overseas foreign exchange market and the desire of most of the nations to devalue their currency to increase exports, will India plead for an exchange rate truce among the major trading nations so that the international trade and financial systems are not further depressed by this conflict? Simultaneously, will the Government instruct the Reserve Bank to intervene in the inter-bank market by selling dollars and revising the purchase rates?

SHRI BRAHM DUTT: As far as advising major international buyers or countries is concerned, they are not able to agree among themselves; but we are raising this question in other forms in various forums and the Reserve Bank will take steps as and when required, in the interest of Indian economy.

SHRI JAGESH DESAI: In terms of rupee *vis-a-vis* Mark, JJpanese Yen and Swedish Kroner, the value has gone down by about 35 per cent. I would like to know from the hon. Minister whether imports from these three countries have been reduced and exports increased because the price in India will be much less and as such, this will boost our exports. I want to know whether from these three countries, our imports have decreased and exports increased because of this.

SHRI BRAHM DUTT: In 1986-87, our exports grew @ 17.3 per cent and imports grew @ 2.3 per cent. That is the import trend.

SHRI A. G. KULKARNI: At the outset, I want to know about what my friend has just said about devaluation. I do not know what is that devaluation. There is no devaluation at all. If I have understood correctly, in 1975, when Shri C. Subramaniam was the Finance Minister, our currency was linked to a basket of currencies because of the international fluctuating market. So, I want to ask the question which my colleague has just now asked. This linking of our currency with the basket of currencies was to increase our competitiveness for export. I want to know whether that has been achieved. Simultaneously, when the rupee value goes down the foreign exchange debt increases and thereby increases the debt servicing interest, etc. Along with this our requirements of money and capital goods for modernisation are also lowered down because we do not have the foreign currency. May I have a clarification on this?

SHRI BRAHM DUTT: On the first point I agree that there has been no devaluation. (*Interruptions*).

AN HON. MEMBER: Dollar has come down.

SHRI BRAHM DUTT: That is a different question, but we have been keeping this system of linking rupee to the basket of currencies. There have been two good trends, the decrease in quantity and price of bulk commodities purchase, increase in export and decrease in imports. About debt servicing, that is a matter to be studied in long term, that cannot be studied in short term.

SHRI A. G. KULKARNI: I did not understand properly. Can you explain? You were also the Finance Minister.

MR. CHAIRMAN: He has said that the impact of the lower value of the rupee, interest, debt servicing, will have to be studied. Yes. Mr. Chitta Basu.

SHRI A. G. KULKARNI: Even an ordinary fruit vendor will tell what is what.

SHRI CHITTA BASU: May I know from the Minister whether his attention has been drawn to the latest report of the

World Bank regarding the state of economy in India? I would like to know whether in that report it has been stated, I quote;

"Benefits from the changes in industrial policy need to be complemented by direct export incentives especially and exchange rate policy that enhances relative profitability of export sales."

Does it not indicate that there is a valid suggestion from the World Bank for devaluation of our rupee in the present state of our economy? If so, I would like to know whether pressures are also mounted on the Government for taking recourse to devaluation of rupee under the pretext of that exchange rate policy. I want a clarification on this.

SHRI BRAHM DUTT: World Bank may have its own issues but we never succumb to pressures.

MR. CHAIRMAN: Very effective answer. He says, the World Bank may have any opinion, we do not succumb to it. I thought it is in your favour and you should be very happy about it.

DR. H. P. SHARMA: Part (c) still remains to be answered. What are the remedial measures that the Government propose to take?

SHRI BRAHM DUTT: Remedial measures can be on the internal front, inside the country, to contain inflation and to contain the deficit. That is more vital for us. As far as external trade is concerned, we are already having good trends. So, no remedial measures are required. We want to increase our trade.

DR. G. VIJAYA MOHAN REDDY: Sir, the basket of currencies is always against the interest of the developing nations. It is a wellknown fact that now the world itself is divided into two markets—one is the imperialist capitalist market and the other is the socialist market. But Government of India has not even cared to mention about the exchange rates with socialist countries. This I think is that blind spot. I request that the trade with the socialist countries should increase and also a self-reliant economy wherever imports are reduced should be our moot point. What is the position that Government of India will take in this context?

SHRI BRAHM DUTT: I have already answered it. We always try to increase our trade with the socialist countries—the Eastern bloc. That is our policy.

DR. G. VIJAYA MOHAN REDDY: But why is there no mention of exchange rates with socialist countries?

MR. CHAIRMAN: Because it is rupee trade. There is no fluctuation. This is a rupee trade agreement. Therefore it is not there.

SHRI V. GOPALSAMY: According to the Business Standard Research Bureau, the rupee fell by nearly 35 per cent against the Japanese yen and by 39 per cent against the Deutsch Mark in January 1987 over the level of January 1986. It also fell by nearly 6 per cent in terms of the dollar during this period from Rs. 12.3008 per dollar to Rs. 13.0211 per dollar. However, the yen and the D-Mark gained by nearly 23 and 24 per cent respectively during the same period in terms of the dollar. Is it a fact that the strengthening of the Japanese yen and D-Mark have put a heavy burden on the Indian economy which depends on the share of the India's trade-denominated in yen and D-mark? May I know from the Government whether it is a fact that the recent spurt in the value of yen and D-Mark has raised doubts in the minds of the Indian importers whether it would be preferable to switch over to the dollar. What is the attitude of the Government and also its line of approach in this regard?

SHRI BRAHM DUTT: Government always studies the appreciation of a particular currency and we advise accordingly and take measures accordingly. It is a matter of study.

MR. CHAIRMAN: Next question, No. 122.